



USDA Foreign Agricultural Service

# GAIN Report

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## Brazil

### Grain and Feed

### Rice Update

### 2005

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**Report Highlights:**

Post lowered the 2005/06 production forecast by 200,000 tons to 12.0 million tons on 3.4 million hectares. Production for the current crop, which is nearly 100 percent harvested, is estimated at a record 13.2 million tons. Exports for the 2005/06 April/March marketing year are forecast at 200,000 tons, up 100,000 tons from the previous forecast. Imports for 2005/06 are forecast at 450,000 tons, which is more than 200,000 tons less than last year. With current prices the lowest in several years, there is mounting pressure from domestic producers to stop the flood of imports from Mercosul suppliers.

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Includes PSD Changes: Yes  
Includes Trade Matrix: No  
Unscheduled Report  
Brasilia [BR1]  
[BR]

## Rice PS&amp;D

Brazil							
Rice, Milled							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		04/2004		04/2005		04/2006	MM/YYYY
Area Harvested	3732	3618	3700	3856	3500	3400	(1000 HA)
Beginning Stocks	586	570	1266	1300	1284	1525	(1000 MT)
Milled Production	8709	8709	8400	8976	8100	8160	(1000 MT)
Rough Production	12807	12807	12353	13200	11912	12000	(1000 MT)
MILLING RATE (.9999)	6800	6800	6800	6800	6800	6800	(1000 MT)
TOTAL Imports	700	787	550	450	550	700	(1000 MT)
Jan-Dec Imports	760	801	500	425	500	750	(1000 MT)
Jan-Dec Import U.S.	0	0	0	25	0	75	(1000 MT)
TOTAL SUPPLY	9995	10066	10216	10726	9934	10385	(1000 MT)
TOTAL Exports	50	79	100	200	100	125	(1000 MT)
Jan-Dec Exports	37	37	100	200	100	125	(1000 MT)
TOTAL Dom. Consumption	8679	8687	8832	9001	9096	9210	(1000 MT)
Ending Stocks	1266	1300	1284	1525	738	1050	(1000 MT)

## Production

With harvest nearly 100 percent complete and in light of the most recent CONAB survey, Post estimates 2003/04 production at 13.2 million tons on 3.9 million hectares with record production in Mato Grosso at 2.1 million tons. In Rio Grande do Sul, early indications are that yields are much better than expected. Reports over the past few months of scarce irrigation water and abandoned area appear to have been over exaggerated. Beneficial rains at the end of March helped the crop recover. However, some areas in the western portion of the state were abandoned and the quality of grain this year in the state is reported to be below average. Rice in the state has a higher percentage of broken due to hot and dry growing conditions.

At current prices (see table below) producers are unable to cover productions costs estimated at around R\$29 per sack in Rio Grande do Sul. As a result, producer organizations are pushing the government for support in the form of both private and public options contracts along with measures to halt imports from Argentina and Uruguay (see trade section). While the government launched private options contracts (with a R\$3 sack premium), these measures have been unable to significantly support prices, which are now lower than the price of corn in many parts of Brazil. However, the Minister of Agriculture recently announced that R\$100 million will be released to support rice and cotton prices through various government support programs.

Rough Rice Prices in Rio Grande do Sul													
US\$ Per 50 Kg Sack													
	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Avg.
2002	11.1	9.4	9.0	9.3	8.5	8.8	8.2	8.2	8.3	8.3	9.2	8.7	<b>8.9</b>
2003	9.4	8.3	8.0	10.2	12.6	12.6	12.8	12.5	12.7	12.6	13.6	14.2	<b>11.6</b>
2004	14.6	13.1	11.5	11.7	10.8	10.0	10.0	9.9	10.3	9.7	9.4	8.6	<b>10.8</b>
2005	8.7	9.5	9.2	9.0	7.7*								<b>8.8</b>

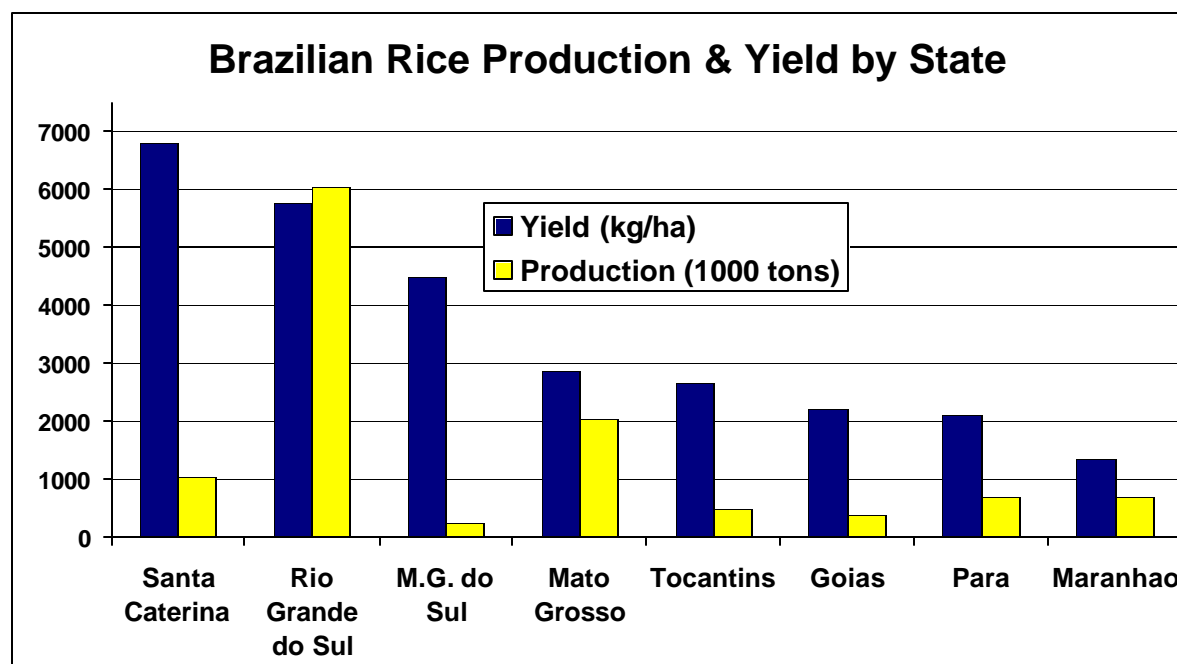
Rough Rice Prices in Rio Grande do Sul													
	R\$ Per 50 Kg Sack												
	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Avg.
2002	26.4	22.8	21.1	21.5	23.2	23.9	24.1	25.5	27.9	31.7	33.0	31.7	<b>24.3</b>
2003	32.2	29.8	27.6	31.7	37.3	36.2	36.8	37.6	37.0	36.0	39.6	41.6	<b>35.3</b>
2004	41.6	38.5	33.5	34.0	33.6	31.2	30.4	29.7	29.8	27.8	26.3	23.3	<b>31.6</b>
2005	23.3	24.7	24.9	22.5	19.0*								<b>24.0</b>

Source: Secretaria De Agricultura e Abastecimento de RGDS and CONAB

\* Post forecast based on weekly prices

Though prices are currently drastically low and it appears that production costs will again be high for 2005/06 crop planting, Post remains cautious as to an expected retraction in planted area. This is primarily because producers across Brazil did not react to low prices and high input costs by reducing area last year. For most rice producers in Brazil, there are few rotational crop choices and the majority of growers, particularly in the south, plant rice back-to-back. Therefore, it would likely take several years of low to negative returns before producers in Rio Grande do Sul and Santa Catarina would significantly move out of rice production. Nevertheless, prices at planting this year should be lower than last year and therefore Post expects a reduction in planted area in those few areas in the where producers can switch to soybeans or pasture.

Looking ahead to production for next year reveals that the outlook for planted area varies slightly by region but production in the center-west and south should be even or slightly down from this year. However, it is important to note the strong upward trend in yields over the past decade. While area fell nearly 20 percent over the past 10 years, yields increased about 35 percent. With this trend of strong yields expected to continue (forecast by Post at 3.5 tons per hectare next year) the impact on overall production from reduced area might be negligible. Though there is plenty of time for prices and producer attitudes to change, Post's early forecast for 2005/06 is that 3.4 million hectares will be planted to rice with a yield of 3.53 tons per hectare for production of 12.0 million tons, which is down 200,000 tons from the previous Post 2005/06 forecast. Below is a brief summary of factors impacting production next year given by major production state.



## **Santa Catarina**

Approximately 95 percent of rice in Santa Catarina is irrigated using a pre-germination planting system. Some of the reasons for very high yields in the state include that farms are relatively small allowing for more attention to the crop, very good soils, and a second harvest where 1.5 to 3.0 tons per hectare are obtained 45 days after the primary harvest. For this second rice crop a heavy application of nitrogen is applied to the freshly cut stubble of the first crop. Post does not expect a reduction in area planted to rice in Santa Catarina but yields may be impacted slightly by a lighter application of currently very expensive nitrogen to the second crop.

## **Rio Grande do Sul**

The quality of this year's crop is reported to be significantly below the historical average for the state. Normally between 57 and 59 percent of the grain is whole, while this year the average of whole grains is expected to be between 52 and 54 percent. This year's drought in the state is largely responsible for the high level of broken. As mentioned above, most rice producers have very little option but to plant rice due to heavy investments in irrigation equipment, and the topography of the land. Nevertheless, for those few producers in central and southern Rio Grande do Sul that have the option to switch to soybeans for a summer crop it is very likely they will move away from rice. This is primarily due to extremely low producer prices, continuing high costs, and expensive credit. Many rice producers are behind on debt payments due to negative returns this year and those that can, will switch to soybeans, as prices are believed to be more stable and provide a greater profit prospect. Producers are also concerned about low reservoir levels, but there is plenty of time for beneficial rains to fill the reservoirs before planting.

## **Mato Grosso**

While prices received for this year's crop are disappointing in Southern Brazil, they are dismal in Mato Grosso, which is the second largest rice producer in Brazil. Mid May quotes for a 60 kg sack of rice in Sinop are only R\$14 compared to R\$18 to R\$20 for a 50 kg sack in Rio Grande do Sul and Santa Catarina. These low prices are due to a record crop in Mato Grosso along with greater competition in Sao Paulo and other population centers from Mercosul supplies and from rice from Southern Brazil. Further adding to the poor prices is an excess of offers for poor quality Cirad 141 variety rice, which is not qualifying under the "Long Fine" classification.

Producers in the state are telling the same story as producers of most grains across Brazil, which is that current low prices do not cover soaring production costs, estimated at R\$16.30 per sack of rice in Mato Grosso. As a result, rice growers in Mato Grosso are reporting that they intend to reduce area and inputs for next year's crop and mills in the state are currently selling machinery to other states in anticipation of immediate closing. Though producer claims of intentions to reduce area last year were not realized, Post believes that the situation is more dire this year and expectations are that area will fall minimally, though Post does not expect a dramatic reduction in technology (fertilizer) use as has been suggested by some in the industry. Most rice in Mato Grosso is unirrigated and thus switching to other crops is easier than in the south, but rice is an important rotational crop and still used in some areas on newly opened land to correct soil deficiencies. For these reasons, Post expects only a minimal reduction in area but a slightly higher yield.

## Mato Grosso do Sul

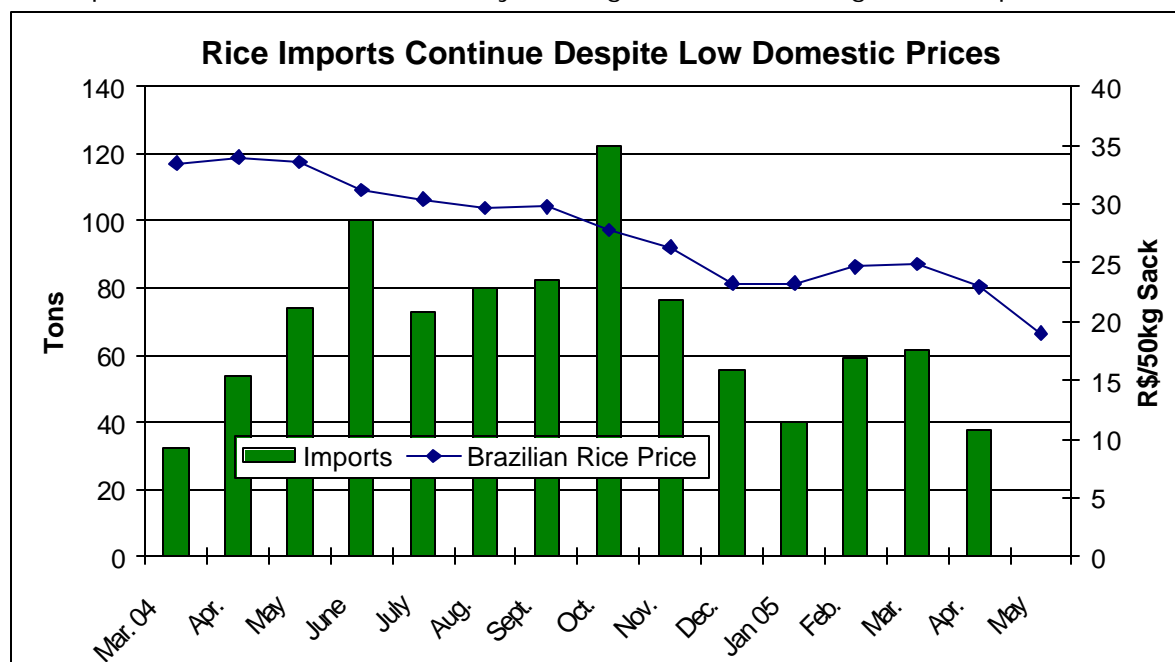
Producers in the state are being encouraged by the Mato Grosso Association of Rice Producers and Irrigators to reduce planted area in 2005/06 by 20 percent. The reduction is recommended due to low prices below the cost of production in the state and continued imports from Mercosul. It is recommended that growers not plant in fields heavily infested by red rice last year, thereby reducing their cost of production.

## Tocantins

Production in Tocantins is expected to get a boost from the construction of new rice mills in the state. However, with 70 percent of the crop irrigated, planted area for the 2005/06 crop is in doubt due to dryness in the Northeast region for the first half of the year. Reservoirs in the state are used to irrigate winter crops such as soybeans for seed, watermelon, and dry beans. Therefore, without sufficient rainfall before October rice planting, the reservoirs may run out of water. Another limiting factor to area in the state is the infestation of brusome, which is a highly destructive fungus. According to Planeta Arroz, the ideal growing conditions for brusome are high temperatures and humidity. With these conditions present this year, 18 percent of the cost of production was dedicated to fighting the fungus. Embrapa reports that much of the problem lies in the fact that rice seed varieties brought from Southern Brazil are not resistant to brusome, which infests fields in Mato Grosso as well as Tocantins.

## Trade

The Brazilian import market in recent months has been dominated by Mercosul exporters due to very competitive prices versus other suppliers such as the United States, Thailand, and Vietnam. In fact, since November of last year, Mercosul exporters have accounted for 99 percent of Brazilian imports. While exports from these neighboring Mercosul suppliers, primarily Argentina and Uruguay, have fallen since October of 2004, the amount of imports is still impressive given the fall in Brazilian prices in anticipation of a very large domestic harvest (see chart below). Now with harvest nearly complete, prices are the lowest in years and imports continue to enter, thereby causing discontent among Brazilian producers.



The primary reason cited by the rice industry for imports from Argentina and Uruguay is the higher cost of production in Brazil. A recent study published by the Rio Grande Institute of Rice (IRGA) suggests that the cost of production in Argentina is 25 percent less than in Brazil while the cost in Uruguay is 30 percent less. The principal reason for the higher costs is greater taxes in Brazil with IRGA calculating that 35 percent of the value of rice comprises taxes of which 41 percent are federal taxes, 53 percent are state taxes, and 6 percent are municipal taxes. Producers in the south claim that given these burdensome taxes, domestic rice is uncompetitive for much of the year versus cheaper Argentine and Uruguay supplies. Currently, Uruguayan rough rice at the border of Jaguarao in Rio Grande do Sul is priced at U.S. \$180 per ton and Argentine rough rice at the border town of Uruguaiana is quoted at U.S. \$195 per ton.

Rice producers, particularly in Rio Grande do Sul, are pushing for three measures to be taken by the government to limit imports including:

- Establishing safeguards (50 percent tariff) on the importation of rice from Argentina and Uruguay
- Raising the Common External Tariff on all non-Mercosul imports
- Withdrawing the exemption of the PIS/Cofins tax on milled rice from Mercosul

With no action taken by the government on requested measures, tensions boiled over in late April and early May with producers blocking border crossings with Uruguay thus temporarily preventing rice shipments from crossing. Currently producers are also causing delays at some border crossings with Argentina. In reaction to this, the regional superintendent from the Ministry of Agriculture intensified inspection of imported rice. Argentine and Uruguayan rice must now undergo tests for agrochemical residues. This is reported to be causing delays of up to a week for shipments crossing the border. The regional superintendent justified the action only by saying he supports Brazilian producers right to better prices. Meanwhile, the Minister of Agriculture has stated that he does not believe there is an immediate solution to the problem given that Mercosul is a "free market." With diplomatic tensions rising between the two countries, it is very unlikely that any action will be taken by Brazil. In the absence of any coordinated government policy to slow imports, Post believes that such actions by local officials will continue.

While internal prices have been falling steadily over the past several weeks government support measures in the form of options contracts are welcomed by producers and expected to slightly support prices. Growers in Rio Grande do Sul are in an awkward situation since they obviously want the higher prices expected due to the government measures but if prices increase too much, imports from Uruguay and Argentina will pick up even more. Before the fall in prices over the past two months, 62,000 tons of rice were imported in March, which is double the imports from March 2004.

<b>2004/05 April/March Imports</b> (Thousand tons – milled bases)			
Exporter	Paddy (milled bases)	Milled	Total
Uruguay	63	373	436
Argentina	21	251	272
Thailand		60	60
Paraguay	16		16
French Guiana		1	1
Surinam		1	1
United States			1
<b>Total</b>	<b>84</b>	<b>696</b>	<b>787</b>

<b>2004/05 April/March Exports</b> (Thousand tons)			
Exporter	Milled	Broken	Total
Senegal		53	53
Switzerland		7	7
Chile		6	6
Peru	4	3	7
Argentina		2	2
Trinidad and Tobago	2		2
Paraguay	0	1	1
New Zealand	0	1	1
<b>Total</b>	<b>6</b>	<b>73</b>	<b>79</b>

Source: Minister of Industrial Development and Foreign Trade

\* U.S. exports reported by USDA

Total imports in 2004/05, as reported by the Brazilian government, totaled 787,000 tons. Uruguay and Argentina dominated the market with a combined share of 90 percent. Meanwhile, the United States, Thailand, and Vietnam were almost completely out of the market after significant exports to Brazil in 2003/04. Post forecasts 2005/06 imports at 450,000 tons, which is a decrease of 250,000 tons over the previous Post forecast. Despite a very large Brazilian harvest, the forecast for 450,000 tons of imports is due to the recent pace of purchases, a strong Brazilian currency (see chart below), and very competitive prices in Argentina and Uruguay.

<b>Brazilian Currency (R\$) versus the U.S. Dollar and Argentine Peso</b>													
2004/05	Jun	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	% Fall
R\$/Dollar	3.13	3.03	3.01	2.89	2.85	2.79	2.71	2.69	2.61	2.68	2.58	2.48	<b>21</b>
R\$/Peso	1.07	1.03	1.00	0.97	0.96	0.95	0.91	0.91	0.90	0.91	0.89	0.85	<b>20</b>

Source: Oanda

Total exports for 2004/05 were 79,000 tons, most of which was broken rice. There has been much speculation in the rice industry about significant exports this marketing year. Evidence of increased shipments is seen in exports during the final two months of the last marketing year (February and March) of 41,000 tons. Exports for the first month of the year (April) were 18,000 tons and with prices plummeting, the pace of exports is expected to increase and could easily lead to more than 200,000 tons of shipments. Large carryover stocks from the 2003/04 harvest of low quality and broken rice should be exported over the next several months, primarily to African importers. These supplies are concentrated in the states of Rio Grande do Sul (RS) and Mato Grosso with shipments most likely to come from RS due to proximity to the port of Rio Grande. However, for large-scale exports to occur, a weakening of the Brazilian currency will be necessary. In 2004, the Brazilian currency rate to the U.S. dollar reached as high as \$3.20 compared to the current rate of R\$2.45. The Rio Grande do Sul Rice Federation is encouraging cooperatives to hold 10 percent of rice in storage for exports and the Federation is hopeful that inquiries at competitive prices will come in from foreign buyers. Producer organizations and cooperatives in Rio Grande do Sul are hopeful that 300,000 tons can be exported this year, however, given the current exchange rate, Post forecasts 200,000 tons of shipments.

**Stocks**

Post estimates ending stocks as of March 31, 2005, at 1.30 million tons on a milled basis. According to CONAB, public stocks of rice as of March 21, 2005 were 1.8 million tons rough basis or 1.27 million tons milled basis. This includes 300,000 tons in Mato Grosso and 1.51 million tons in Rio Grande do Sul. Public stocks at the same time last year were only 358,000 tons.